

3/22/77 [2]

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THE WHITE HOUSE
SIGNATURE MUST BE SECURED

TO:

DATE. 3/22/77

The Honorable Juanita M. Kreps
Secretary of Commerce
Washington, D. C. 20210

NUMBER 003846 ..

TIME REC'D

RECEIVED BY *S. L. Hae*

DELIVERED BY *J. M.*

RETURN RECEIPT ROOM ~~54 E. O. B.~~
RICH HUTCHESON

THE WHITE HOUSE
WASHINGTON

March 22, 1977

Secretary Kreps -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson
Bert Lance

Re: Department of Commerce
Long Range Priorities - and
Actions

Budget Coordination

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EISENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

cc Keps

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
X	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ENROLLED BILL
	AGENCY BILL
	Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

	CAB DECISION
	EXECUTIVE ORDER
	Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI
	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING
	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

March 18, 1977

"FYI"

REPORT TO THE PRESIDENT

THE PRESIDENT HAS SEEN.

SUBJECT: Department of Commerce Long-Range Priorities--And Actions

LONG-RANGE PRIORITIES

As I have indicated to you before, I have been focusing on what should be the major long-range priorities for the Department of Commerce and have had several staff meetings on the subject. On a quite preliminary basis, we have focused on the five major program priorities outlined below. As you can see, these program priorities put the principal emphasis on an improved set of policies for economic growth, development, and employment, principally through the private sector.

o Improved Economic and Social Information for Setting Public Policies. Building on the strong staff base in the Department of Commerce, I would like to see us become the center for the collection, analysis, and dissemination of the economic and social information for setting sensible public policies. I believe we should pull together the disparate statistical activities within the Federal Government so that we can better understand developing trends in the economy and society, both domestically and in the context of the world community. This improved information would allow the Department to strengthen its contribution to the setting of economic policy.

o Economic Development and Employment. I believe a top priority ought to be a comprehensive urban and rural economic development policy that comes to grips with structural economic decline by encouraging community and business development that will provide balanced growth and employment. This should include an examination of creative new ways--beyond public works and public service jobs--to encourage increased jobs in the private sector.

o Improved Business Conditions. The Department should put greater emphasis on improving business conditions and development, particularly as they are impacted by public policies. In particular, a higher priority should be placed on improved public policies with respect to medium-sized, small, and minority enterprises. In pursuing this priority, we should consider the advantages of including the activities of the Small Business Administration within the Department of Commerce.

o Oceans and Resource Policies. I believe we must develop a comprehensive set of oceans, maritime, and coastal zone policies that will permit the economic development of these resources while protecting the environment. More and more I have become convinced of the significant economic potential of these resources.

o International Policies. While general international economic policy falls within the purview of several agencies, I believe that the commercial and trade aspects should be a top priority for our Department. We have the staff resources to do

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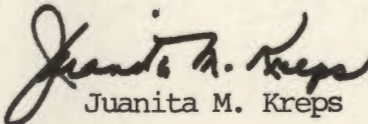
this job, as well as the ties with the business community that would facilitate such an effort.

These are some first thoughts on our top program priorities. I would hope to develop these, and perhaps a few more, in the context of the next budget cycle. In addition, we will be developing a number of long-range management priorities, with an emphasis on efforts to humanize working conditions and relations within the Department of Commerce. I would appreciate your views of the directions I have sketched out and look forward to talking with you about it soon.

ACTIONS

o Cargo Preference. The EPG has decided unanimously that proposed cargo preference legislation H.R. 1037, even if substantially amended, should be opposed because the economic and foreign policy costs outweigh the benefits. A memorandum outlining this decision will be sent to you shortly. Given your campaign statements on this issue, however, the memorandum also will seek guidance on what additional action you may desire to take with respect to the maritime industry.

o Budget Coordination. The House added \$162.5 million to the 1977 economic stimulus supplemental for a Job Opportunities program in EDA. This was not requested by you and would be difficult for this Department to administer. After checking with OMB, I wrote a letter to the Senate Appropriations Committee, urging it to recommend against this add-on. We were successful in this effort. After the Senate Committee had accepted our position, another office in OMB indicated that the Administration had tacitly agreed to this add-on as part of a \$900 million increase in the economic stimulus package. The \$162.5 million was subsequently added to another part of the stimulus package, but better coordination and communication would have prevented the confusion which surrounded this matter.


Juanita M. Kreps

↑
?

~THE WHITE HOUSE~

> ~~Korea~~ Korea - Basic policy
Horn - Relief Time period 7%
Security pact
See Council C/

~~Pitt~~ - no

> TV - Color

ITC

> ~~ASCAN~~ Small aid

Viet Nam/Moscow/Mid E/Africa/PAC

> Greater role for Japan

Euro steel

> Trade balance

> ~~Cost of M.L. lay~~

40%

courses

Energy - 4/20

Portugal - Consortium

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Noted from
Meeting with
Prime Minister of Japan 3/22/99

THE WHITE HOUSE
WASHINGTON

March 22, 1977

Stu Eizenstat -

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handling.

Rick Hutcheson

Re: Shoes -- Note from
Speaker O'Neill

cc: Frank Moore

THE WHITE HOUSE
WASHINGTON

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	COSTANZA
	X EIZENSTAT
	JORDAN
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	POWELL
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	VOORDE

SHOES

To Eisenhower
from Speaker
O'Neill

Mr. President, I feel compelled to bring to your  attention the tremendous support in the Congress for the relief to the U.S. shoe industry recommended by the International Trade Commission. As you know, by April 9 you must either adopt this recommendation or change it - in which case Congress could override your decision.

The ITC for the second time within a year has determined that the domestic footwear industry is being seriously injured by imports -- 46% of the U.S. market -- and suggests a system of tariff-rate quotas.

There should be no dispute over the ITC's finding of injury:

- ° From 1968 to 1976, imports rose from 182 to 370 million pairs.
- ° Import penetration increased from 21.5% to 45.7%.
- ° Production fell from 642 to 445 million pairs.
- ° Employment declined from 233,000 to 170,000 workers.
- ° The unemployment rate was 11.7% in the last half of 1976, 50% higher than the national average.
- ° Idle capacity in the industry is about 200 million pairs, 30% of the industry's capacity.
- ° The number of firms declined from 597 in 1969 to 376 in 1975, and probably is less than 350 today.

MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

9

INFORMATION

22 March 1977

TO: THE PRESIDENT
FROM: RICK HUTCHESON
SUBJECT: Memoranda Not Submitted

al

1. HUBERT HUMPHREY LETTER calling your attention to the Minnesota Solar Energy Research Institute. Advantages:
 - a. national in scope, involving solar R&D facilities in 9 states; supported by 13 Governors and 78 Members of Congress; has a "blue ribbon nationally-oriented Board of Directors"
 - b. Minnesota's "SERI" proposal would be located in the area of greatest near-term solar applicability -- the northern tier states are most economically feasible for solar home heating, according to ERDA, U.NM studies

9

(copy sent to Schlesinger)

2. MCKENNA/LIPSHUTZ MEMO suggesting that your comments about career government employees have created perception that you do not value their services (i.e., comments on the number of government lawyers, over-paid bureaucrats).

Margaret observes that while there is dead wood, there are also many dedicated public servants who have chosen public service in lieu of better-paying jobs in the private sector -- they have sacrificed to choose public service as a career. The memo asks that you endeavor to change the perception that you do not care about career government employees.

3. JOE ARAGON MEMO reacting to the Attorney General's account of his recent visit to the "Tijuana Hilton." Judge Bell reported on comfortable accommodations and legal assistance provided to illegal aliens who were in custody.

Joe remarks that the majority who fall into this category are detained in overcrowded and unsanitary facilities and receive considerably less comfortable treatment. "There is great confusion and a woeful misunderstanding of the true condition of the undocumented worker" and "an urgent need to find answers to these questions."

**Electrostatic Copy Made
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4. LIPSHUTZ MEMO passing on a letter from Max Palevsky, who offers to screen for the President a new Paramount film produced by Palevsky, "Islands in the Stream," based on the Hemingway novel. If you want to see it, Bob will advise Palevsky.

_____ want to see the film ☒ not interested

no time

5. ACHSAH NESMITH MEMO ON ENERGY POLICY. She observes:

- a. after having said, "This is the most difficult domestic problem my Administration faces," there is a real danger in asking too little
- b. if the people are convinced that the situation is serious and that you will deal with it seriously and equitably, they will be willing to go much farther than they have ever been asked before... But if you ask too little, you'll get nothing.
- c. Schlesinger's presentation on the 14th sounded like a play for time... Two important areas -- agriculture and public transportation -- were not covered
- d. she advocates a tax on new cars which fail to meet a high mpg standard... the affluent could choose to be selfish, but they would have to pay

To me

6. RESPONSE TO YOUR QUESTION about the different sizes of Presidential Commission Documents.

By law, each department prepares and records the commissions of its presidential appointees. (Although State prepares the commissions for all Cabinet Officers, and for HEW, HUD, and DOT.)

By tradition, each department designs its own commission document -- thus, the variation. The White House has not established a single style or format for these documents to date. I can look into this further if you wish.

☒ status quo OK _____ investigate establishing a single commission document

7. DICK MOE MEMO informing you that the League of Women Voters endorsed your Universal Voter Registration Proposal today. ✓

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

March 24, 1977

Jim Schlesinger -

The attached is forwarded to you
for appropriate handling.

Rick Hutcheson

cc: Frank Moore

Letter from Hubert Humphrey
re: Solar Energy Research
Institute (SERI)

THE WHITE HOUSE

WASHINGTON

INFORMATION

22 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON

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(copy sent to Schlesinger)

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United States Senate

WASHINGTON, D.C. 20510

March 22, 1977

MEMORANDUM

To: President Carter

From: Hubert Humphrey

Subject: Solar Energy Research Institute (SERI)

Again, I want to call the SERI competition to your attention. As the author of PL 93-473, which established SERI, I am particularly interested that the Minnesota group be selected as the operator-manager for SERI.

Technically, our proposal is superior; no proposal has been ranked above it. But, there are several other factors which make it a unique proposal -- which strongly argue for its selection. These unique characteristics are as follows:

* It is the only national proposal in scope. The Minnesota group involves solar R & D facilities in nine states -- the only proposal to reach beyond just one State for such facilities. Additional research facilities are contemplated, as well. These facilities will be selected as components of SERI by Dr. Richard Williams, Georgia Tech's Associate Dean of Research. Williams has been the Minnesota group's Director of Research since April, 1976; he is in an excellent position to bring into SERI R & D expertise at institutions like Georgia Tech.

Award of SERI to the Minnesota group would immediately channel solar research funds to the West (Hawaii, Arizona), the Midwest (Minnesota, Oklahoma), the North (Ohio, Illinois), and the South (Arkansas, Mississippi, Texas). Selection of the Minnesota group would acknowledge that solar energy is a national resource which should be developed across our nation, not just in one city.

* It is the only proposal with a blue ribbon nationally-oriented Board of Directors. The Board has a strong industrial background. It does not have a local or regional orientation. The Board includes:

Memorandum to President Carter
Page Two (2)
March 22, 1977

J. Fred Bucy, President, Texas Instruments
T.M. McDaniel, Jr., President, Southern California Edison
Dean McGee, Chairman, Kerr-McGee Corporation
William K. Reilly, President, Conservation Foundation
Irving S. Shapiro, Chairman, duPont deNemours & Company, Inc.
George H. Weyerhaeuser, President, Weyerhaeuser Company

* It is the technically most sound proposal from the Midwest and South. As a result, it is supported by 13 Governors from these regions and 78 Members of Congress -- concerned with the present skewed distribution of federal R & D funds towards California and the Boston Corridor at the expense of their regions. In FY 75, for example, federal R & D outlays were \$148 per capita in Massachusetts and \$202 in California, but averaged only \$37 in Minnesota, \$26 in Mississippi, and \$8.70 in Arkansas.

* Selection of the Minnesota group's proposal would locate SERI headquarters in the area of greatest near-term solar applicability. New studies by both ERDA and the University of New Mexico have recently cited the Northern Tier states (Minnesota, the Dakotas, Montana) as the economically most feasible area for solar home heating. Home and water heating are the most advanced solar technologies. The Northern Tier's relatively abundant sunshine, in coordination with high heat loads, account for solar energy's economic attractiveness there.

In summary, Mr. President, the Minnesota group's SERI proposal has a unique combination of superior technical characteristics, broad Congressional support, strong national orientation, and would put SERI in the area of solar energy's most immediate application.

MARCH 22, 1977

RICK:

FRANK MOORE LEFT THIS WITH ME TO
GIVE TO THE PRESIDENT. HE SAID
SENATOR HUMPHREY MENTIONED IT
TO THE PRESIDENT AT THIS MORNING'S
BREAKFAST. IF YOU DON'T SEND IT
RIGHT IN, PLEASE LET FRANK KNOW.

NELL

THE WHITE HOUSE

WASHINGTON

INFORMATION

22 March 1977

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THE WHITE HOUSE

WASHINGTON

March 14, 1977

MEMORANDUM FOR THE PRESIDENT

THROUGH:

ROBERT LIPSHUTZ

FROM:

MARGARET MCKENNA

mmk *BJ*

SUBJECT:

Your Comments Concerning
Career Government Employees

You have made several comments concerning career government employees which, at least to some degree, have created the perception that you do not value their services. The comments I am referring to are the statement about the number of lawyers in the government, and the statement you made at the March 7 Cabinet Meeting concerning over-paid bureaucrats.

These statements, and some of the statements you have made at different agency and department visits, I believe, have led to a widely held perception by career employees that you do not have a high regard for their services. I do not believe that this is your intention, but I do believe that you should be aware that this perception exists.

I have been employed as a government lawyer for most of my career, and I base my statements on my own reaction, that of a number of friends in the government and, in addition, as a result of a luncheon I attended with Bob Lipshutz, where 100 present and former General Counsels of departments and agencies were present. At that luncheon meeting this issue was raised and the feeling affirmed by the majority of those present. Several people came up to me following the meeting to say that they were considering leaving the government after numerous years of service.

I would be the first to admit that there is dead wood in the bureaucratic system. I also believe that there are bright, hard working, creative and dedicated career

people in the government. Many have chosen public service in lieu of a better paid private sector position.

Your statements at agencies and departments concerning reorganization emphasized the fact that government employees would not be put out of jobs. I do not believe that the main concern of a substantial portion of government managers and lawyers is continuing their uninterrupted employment. I do believe that a substantial number are more interested in a challenging position.

Again, a substantial number of careerists could leave the government for higher paying jobs. I would like to give you examples from my own experience.

Two men that I worked for at the Department of Justice are both career government lawyers. David Rose is an honors graduate of Harvard Law School who has spent the last 18 years as an employee at the Justice Department in various divisions and capacities. He is a GS-17, and is presently a Section Chief in the Civil Rights Division. He is by far one of the finest lawyers I have ever dealt with in my legal career, has had any number of opportunities to leave the government, and what has for the past 6 or 7 years been a \$39,000 per year job, for positions paying twice that amount.

His Deputy, Bob Moore, is a GS-15. He, too, has spent his career since law school at the Department of Justice and is now in his late 30's. Again, he is a man with a widely respected reputation as a fine legal technician and trial attorney. I know for a fact that he has been offered positions with various corporations, including a number in the steel industry, which would pay three or four times what he is presently making.

Both of these people, and literally thousands of others, have chosen public service as a career. There has been a lot of discussion about the sacrifice that a number of people coming into the government have made in terms of financial remuneration. It certainly is a sacrifice to leave a \$200,000 per year job to come to the government and make \$60,000 per year. I also believe it is a sacrifice to choose a 20-year public service career in lieu of a \$200,000 per year job.

I believe that you and people around you should be aware that this perception exists and should endeavor to change that perception. It is important to separate the bureaucracy from the bureaucrats.

OK
TS

THE WHITE HOUSE

WASHINGTON

Date: March 18, 1977

MEMORANDUM

FOR ACTION:

Hamilton Jordan - *NC*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Margaret McKenna memo 3/14/77 re
Your Commens Concerning Career
Government Employees.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 10:00 A.M.

DAY: Monday

DATE: March 21, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

*Done; your
Comments on
Career Adv.
Employees*

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67
Date: March 18, 1977

WASHINGTON
MEMORANDUM

FOR ACTION:

Hamilton Jordan

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Margaret McKenna memo 3/14/77 re
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Government Employees.

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TO THE STAFF SECRETARY BY:

TIME: 10:00 A.M.

DAY: Monday

DATE: March 21, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur

☒ No comment.

Please note other comments below:

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THE WHITE HOUSE

WASHINGTON

March 14, 1977

MEMORANDUM FOR THE PRESIDENT
THROUGH: ROBERT LIPSHUTZ
FROM: MARGARET MCKENNA

mmk *ML*

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I would be the first to admit that there is dead wood in the bureaucratic system. I also believe that there are bright, hard working, creative and dedicated career

people in the government. Many have chosen public service in lieu of a better paid private sector position.

Your statements at agencies and departments concerning reorganization emphasized the fact that government employees would not be put out of jobs. I do not believe that the main concern of a substantial portion of government managers and lawyers is continuing their uninterrupted employment. I do believe that a substantial number are more interested in a challenging position.

Again, a substantial number of careerists could leave the government for higher paying jobs. I would like to give you examples from my own experience.

Two men that I worked for at the Department of Justice are both career government lawyers. David Rose is an honors graduate of Harvard Law School who has spent the last 18 years as an employee at the Justice Department in various divisions and capacities. He is a GS-17, and is presently a Section Chief in the Civil Rights Division. He is by far one of the finest lawyers I have ever dealt with in my legal career, has had any number of opportunities to leave the government, and what has for the past 6 or 7 years been a \$39,000 per year job, for positions paying twice that amount.

His Deputy, Bob Moore, is a GS-15. He, too, has spent his career since law school at the Department of Justice and is now in his late 30's. Again, he is a man with a widely respected reputation as a fine legal technician and trial attorney. I know for a fact that he has been offered positions with various corporations, including a number in the steel industry, which would pay three or four times what he is presently making.

Both of these people, and literally thousands of others, have chosen public service as a career. There has been a lot of discussion about the sacrifice that a number of people coming into the government have made in terms of financial remuneration. It certainly is a sacrifice to leave a \$200,000 per year job to come to the government and make \$60,000 per year. I also believe it is a sacrifice to choose a 20-year public service career in lieu of a \$200,000 per year job.

I believe that you and people around you should be aware that this perception exists and should endeavor to change that perception. It is important to separate the bureaucracy from the bureaucrats.

THE WHITE HOUSE
WASHINGTONC
/INFORMATION

22 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON

SUBJECT:

Memoranda Not Submitted

1. HUBERT HUMPHREY LETTER calling your attention to the Minnesota Solar Energy Research Institute. Advantages:
 - a. national in scope, involving solar R&D facilities in 9 states; supported by 13 Governors and 78 Members of Congress; has a "blue ribbon nationally-oriented Board of Directors"
 - b. Minnesota's "SERI" proposal would be located in the area of greatest near-term solar applicability -- the northern tier states are most economically feasible for solar home heating, according to ERDA, U.NM studies

C
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(copy sent to Schlesinger)

2. MCKENNA/LIPSHUTZ MEMO suggesting that your comments about career government employees have created perception that you do not value their services (i.e., comments on the number of government lawyers, over-paid bureaucrats).

Margaret observes that while there is dead wood, there are also many dedicated public servants who have chosen public service in lieu of better-paying jobs in the private sector -- they have sacrificed to choose public service as a career. The memo asks that you endeavor to change the perception that you do not care about career government employees.

3. JOE ARAGON MEMO reacting to the Attorney General's account of his recent visit to the "Tijuana Hilton." Judge Bell reported on comfortable accommodations and legal assistance provided to illegal aliens who were in custody.

Joe remarks that the majority who fall into this category are detained in overcrowded and unsanitary facilities and receive considerably less comfortable treatment. "There is great confusion and a woeful misunderstanding of the true condition of the undocumented worker" and "an urgent need to find answers to these questions."

4. LIPSHUTZ MEMO passing on a letter from Max Palevsky, who offers to screen for the President a new Paramount film produced by Palevsky, "Islands in the Stream," based on the Hemingway novel. If you want to see it, Bob will advise Palevsky.

_____ want to see the film ✓ not interested

no time

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- a. after having said, "This is the most difficult domestic problem my Administration faces," there is a real danger in asking too little
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To me

6. RESPONSE TO YOUR QUESTION about the different sizes of Presidential Commission Documents.

By law, each department prepares and records the commissions of its presidential appointees. (Although State prepares the commissions for all Cabinet Officers, and for HEW, HUD, and DOT.)

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✓

INFORMATION

THE WHITE HOUSE

WASHINGTON

March 21, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JOE ARAGON *JWA*

SUBJECT:

IMMIGRATION AND NATURALIZATION
SERVICE (INS)

At the cabinet meeting this morning Judge Bell described his recent visit to the "Tijuana Hilton" where he interviewed a number of Hispanics who were in custody after having apparently entered this country illegally. Judge Bell referred to the comfortable accommodations as well as to the legal assistance and the air transportation provided these individuals. He also mentioned that some of these individuals had held jobs which were fairly good paying jobs.

Although there is no doubt in my mind but that some illegals fall into this category, it is also true that many others, probably the majority, are detained in overcrowded and unsanitary facilities and receive considerably less comfortable treatment.

For example, Leonel Castillo, incoming Commissioner of INS, after reviewing INS files, told me that in some detention centers men and women are kept in the same cells, are overcrowded and are forced to use common latrine facilities which are open. In other reports, illegals are referred to by the agents in charge as "stock". Leonel also told me that the INS agent in the Bahamas is paid \$60,000 a year because the Bahamas is presumably a hard-ship outpost. This is also true of the agent stationed in Hawaii.

The truth of the matter is that there is great confusion and a woeful misunderstanding of exactly what the true condition of the "undocumented worker" in this country is. There do not seem to be definitive answers to questions such as the number of illegals actually in this country, the types of jobs they have, the wages they make, the number who are on welfare, etc., etc.

There is an urgent need to find answers to these questions if mistakes are to be avoided in the development of intelligent humane governmental policies relating to this problem.

THE WHITE HOUSE
WASHINGTON

March 24, 1977

Bob Lipshutz -

The President appreciated Max Palevsky's offer to arrange for a screening of the new Paramount film - "Islands in the Stream", however, must decline the offer because he does not have the time.

Please follow-up with appropriate action.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

Note to

Lipshutz -

Bies doesn't

have time

THE WHITE HOUSE

WASHINGTON

C
/INFORMATION

22 March 1977

TO: THE PRESIDENT
FROM: RICK HUTCHESON
SUBJECT: Memoranda Not Submitted

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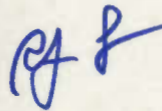
THE WHITE HOUSE

WASHINGTON

March 21, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ



I would suggest that you accept the attached offer from Max Palevsky to having a private showing for your personal benefit of this film in which he obviously has an interest.

This, of course, is provided it is a film which would be of interest to you and the family, and also provided that it does not conflict with any other practices you have established concerning the private showing of films in the White House Theatre.

At your convenience, please advise so that I can respond to Max.

MAX PALEVSKY

924 WESTWOOD BLVD., SUITE 700

LOS ANGELES, CALIFORNIA 90024

TELEPHONE

(213) 478-7556

(213) 476-5916

15 March 1977

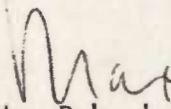
Dear Bob:

It was a real pleasure to meet and talk with you after all this time. Thank you for all your kindness during my visit. I left the next day for Europe so that I have not had a chance to drop you a line until now.

As you remember, we discussed the possibility of the President screening the film that I produced. It is called ISLANDS IN THE STREAM starring George C. Scott and is essentially the story of Ernest Hemingway and his sons. The film was distributed by Paramount and I think deals with the kind of subject matter that would be of interest to the President. Please let me know if I can have a print supplied.

In any event, thank you for your help in looking into the matter for me.

Sincerely,


Max Palevsky

The Honorable Robert J. Lipshutz
The White House Office
1600 Pennsylvania Avenue
Washington, D. C. 20500

MP:jm

THE WHITE HOUSE
WASHINGTON
March 24, 1977

Jim Schlesinger

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Jim Fallows

Re: Energy Briefing

THE WHITE HOUSE

WASHINGTON

INFORMATION

22 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON

SUBJECT:

Memoranda Not Submitted

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(copy sent to Schlesinger)

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THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ENROLLED BILL
	AGENCY BILL
	Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

	CAB DECISION
	EXECUTIVE ORDER
	Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI
	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
X	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING
	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
X	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

March 18, 1977

cc Schlaminger
She's right.
J

MEMORANDUM TO THE PRESIDENT

FROM: ACHSAH NESMITH

Achsa

ABOUT: Energy Briefing

Perhaps this should have been said when we were talking Monday night, but I needed to mull over it. Having mulled, I fear that after a year of pointing out the need and then announcing, "This is the most difficult domestic problem my administration faces", there is a real danger of asking too little.

The way 1973 was handled was a textbook in how to convince people not to do the right thing and prove to them they were fools if they did. People were ready to do far more than they were asked. When Nixon announced we have this big problem, cut the speed limits and then acted as though it had all gone mysteriously away, he created a backlog of skepticism that was still present this winter. Many small businesses suffered a lot, big oil companies made huge profits and everybody was considerably inconvenienced--to no discernible purpose. It all seemed foolish and unnecessary and terribly unfair. That makes your job harder.

The disappearance of the world's oil reserves in as little as two decades must be convincingly documented. I think there is a recognition, deep down, that this time it won't go away, but the people have been called to arms before and found nothing but their shadows to fight. There is a strong desire not to believe, not only to avoid being made fools of again, but because convenience is on the side of waste.

If they are convinced the situation is serious and that you will deal with it seriously and equitably, I believe they are willing to go much farther than they have ever been asked. You have one of those rare moments when you can mobilize a great effort. People want very much for you to succeed in this. But if you ask too little, you'll get nothing. You'll lose them on this issue for good, and probably on a lot of others.

We could have a WIN button of our very own.

I realize that the presentation Monday was not what will go to the people April 20, but the issue is so important that I hesitate to wait until things are in near final form to see if my fears are unfounded. Monday's outline sounded almost like just a play for time. Certainly we must have that, but we need a massive effort to marshall the considerable research and development resources this country has to solving the long term needs as well as getting short term solutions in place quickly.

We have twice mobilized this country to deal with a specific goal in a relatively short time by gearing all the necessary resources to achieve it. In both cases the government could hire a fairly small group and place the necessary resources at their disposal. Energy would involve a much wider and more complex effort, but it also can make use of broad voluntary help, which those could not.

Two important areas were not covered—agriculture and public transportation. Any comprehensive energy policy has to include them. The revitalization of the nation's rail system and of the local transportation systems to get commuters in from the suburbs and people around the cities is basic to making any significant headway in cutting down on gasoline consumption. Feeding a growing world population increasingly dependent on nitrogen fertilizers gets into some much more vital concerns than whether we can do without electric toothbrushes or overheated houses.

It is crucial that regulations, incentives and research be of sufficient scope to be taken seriously, as well as to make real progress possible fairly quickly. Any substantial inconveniences and costs should be scrupulously fair. Just outlawing automatic transmission or letting gasoline prices rise to a level where people would use less falls most heavily on the poor and people who must use motor fuels in their work. But a tax, say, on new cars that fail to meet a fairly high mpg standard, levied at initial purchase and at each transfer, would serve to make gas guzzlers far less popular, and make it clear that you would hold to future industrywide goals. Most foreign cars already far exceed our future mpg standards. It's not a matter of technology—it's a matter of tooling and acceptance.

You mentioned the very important problem of government telling people what to do in a democracy. Something along these lines would grant people the important freedom to make their own trade-offs. The affluent could still choose to be selfish, but they would have to pay. The big cars the poor bought used will eventually wear out, and when this group buys used cars again, they will be smaller. People could choose for themselves whether an automatic transmission or more space or air conditioning was more important, but the need to make choices would be reinforced.

This is important if as a society we are going to face up to the eventual choices that affect our lives much more basically—whether we can continue to spread our population farther and farther from their places of work, whether two cars in every garage is a morally defensible thing, how necessities can be supplied to a burgeoning world population. If massive research and development will not provide alternative energy sources fairly quickly, then these will have to be addressed very soon.

THE WHITE HOUSE

WASHINGTON

3.18.77

To: Rick Hutcheson

From: Jim Fallows *Jim*

Achsah Newsmith is an old friend of
the President's who now works with me.
I think the President would want to see
this memo from her. Thanks.

THE WHITE HOUSE

WASHINGTON

C
/INFORMATION

22 March 1977

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RICK HUTCHESON

SUBJECT:

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MEMORANDUM

THE WHITE HOUSE
WASHINGTON

INFORMATION

19 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *R.H.*

SUBJECT:

Different Sizes of Presidential
Commission Documents

You asked why there are so many different types of Commissions.

By law, each Department prepares and records the Commission of its officers appointed by the President. The State Department prepares Commissions for all department Secretaries, and all Commissions for HEW, HUD and DOT.

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THE WHITE HOUSE
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OFFICE OF THE VICE PRESIDENT
WASHINGTON

MEMORANDUM TO THE PRESIDENT

FROM: Dick Moe *DM*

Your Universal Voter Registration proposal got off to an excellent bipartisan start this morning, as the Vice President may have told you, and you'll be pleased to learn that this afternoon the League of Women Voters enthusiastically endorsed the measure. I am attaching several notes which I thought you might want to send to those on the Hill who helped us and the president of the League thanking them for their support.

Attachment

3/22/77

Electrostatic Copy Made
for Preservation Purposes

Current account deficit
\$6.1 new \$9.1
Import machine
Van Fleet - appreciate
Non Profit
Refer TV - Shoes
Rahyget -
Germany/Bray, 1/7 / Ral
Taiwan/Skow 15 Africa/India
Other step?
Summit

THE WHITE HOUSE
WASHINGTON

MH
3-22-77
3-22-77

I believe we should urge
to 2.5 - 2.6 as target.

1982
TV's
THE WHITE HOUSE

1976 projected level - 2.7 million
1976 actual level - 2.9 million

January 1977 2.6% higher than Jan. 1976

Treasury + STR want a decrease
over 1976 to about 2.5 million
which is what Japanese told
Bergsten in January.
PM said - "Get back
below '76 level"

Electrostatic Copy Made
for Preservation Purposes

of the 76 series in
'77 are first than '76
would this be a legend?

The I.T.C. would like to cut

them back further; even at

somewhat lower level than '76

there would be econ injury

here; ('76 imports more

than doubled in the previous

level).

Electrostatic Copy Made
for Preservation Purposes

You might ask them
about progress in their
Treaty negotiations with
the Chinese, especially
the "anti-hegemony" clause
on which the Chinese are
insisting (against the
Soviets).

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

March 22, 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
BILL JOHNSTON
SUBJECT: The Minimum Wage

I. Issue

Congressman Dent has introduced a bill backed by organized labor that would:

- 1) Immediately increase the minimum wage to 55% of the previous year's average hourly wage in manufacturing (i.e., approximately \$2.79) and in 1978 to 60% of the previous year's average hourly wage in manufacturing (i.e., approximately \$3.14). Currently the minimum stands at \$2.30.
- 2) Tie the minimum wage permanently to the average manufacturing wage, effectively indexing it for both inflation and productivity gains.

We must state our position on this legislation this week.

II. Discussion

Two related questions must be resolved: (A) The level at which to set the minimum; B) How and whether to index this level.

A. Level

- 1) Supporters of a higher minimum argue that all workers should be entitled to a decent standard of living. They point out that the current minimum is below historical levels, measured as a percentage of manufacturing wages. Since 1950 the minimum has ranged between 56% and 41% of average wages in manufacturing, averaging about 48%. Currently it stands at 45%.

2) Opponents of a higher minimum argue that:

- a) It reduces employment, particularly for teenagers. The CEA estimates that the Dent bill would mean a loss of about 170,000 - 340,000 jobs. Since most of the lost jobs would be teenagers, the Dent bill has the potential to eliminate a substantial proportion of the youth jobs we are creating in the stimulus package. The Labor Department strongly disputes these projections. The empirical evidence on employment effects is inconclusive.
- b) It raises prices. According to the CEA the Dent bill would raise prices by as much as 1.8%. Under most econometric assumptions, this would mean a temporary increase in the rate of inflation. The Labor Department disputes the size of the price increase, arguing that only the direct increase in the nation's wage bill is passed through, and that the effect on prices is only about 0.4%.
- c) It is an inefficient way to redistribute income. The CEA estimates that only about 35% of any increase in minimum wages goes to families with incomes below the national median, because many such earners, especially teenagers, are members of higher income families.
- d) An increase in the minimum to \$2.85 would raise the budget costs of existing employment programs by \$405 million if current levels of service are maintained. In addition, the costs of the employment components of our welfare program will be escalated.

B. Indexing

- 1) Supporters of indexing believe that low wage workers should not suffer erosion of their buying power, and should receive some of the benefits of the economy's increasing productivity. They believe that we ought to remove the minimum wage issue from repeated and divisive battles in Congress.

They also argue that it is the delayed jumps in the minimum which are most inflationary and destabilizing to the economy.

- 2) Opponents of indexing argue that it builds a more rapid inflationary bias into the economy. They claim that this is especially true of an index tied to manufacturing wages, as the Dent bill proposes. This is because manufacturing wages rise about 2.0 percentage points faster annually than the consumer price index.

III. Options

Obviously, a range of choices is possible depending on whether we adopt indexing and what index we choose. A more liberal indexing proposal allows us to argue for a lower base figure and vice versa. The EPG has proposed two options, 1 and 4 below. We believe that intermediate choices are possible and preferable:

- 1) An immediate rise to \$2.70 (about 53% of the average hourly manufacturing wage) followed by a later increase to \$3.10 (57% of hourly wages) followed by indexing to the 57% wage standard. (Supported by Labor and HUD)
- 2) An immediate increase to \$2.50 (about 50% of the average hourly manufacturing wage) followed by indexing to the 50% wage standard.
- 3) A two step increase to \$2.50 immediately (about 50%) and then in 1978 to 53% of the average hourly manufacturing wage (\$2.78 approximately), followed by indexing of the \$2.78 base to the consumer price index.
- 4) An immediate increase to \$2.40 followed by indexing to average manufacturing wages. (Supported by Treasury, OMB, CEA and Commerce)

Option 1 would be most satisfactory to organized labor, and Congressman Dent, although it does not correspond exactly to any of their positions.

Option 4 would be very strongly opposed by organized labor.

Option 3 has the following advantages:

- 1) It would minimize the sudden shocks to our economy;
- 2) It would limit the short and long-term effects of indexing;
- 3) It would set the minimum wage at 53% of the average hourly manufacturing wage in 1978, which is exactly the average first year level of the preceding 8 Congressional increases in the minimum.
- 4) It would be more responsive to labor's position than the EPG proposal.

Criticism of this option will come most strongly from organized labor, which will argue that the level we propose is too low (below the poverty line for a family of four with one earner). They will also argue that CPI indexing will increase the gap between minimum wages and those of other workers. Labor strongly supports the manufacturing wage index. Business, on the other hand, may feel that any proposal that includes indexing will be unacceptably inflationary and destabilizing.

RECOMMENDATION:

We believe the choice should lie between an approach similar to option 2 and an approach similar to option 3. (NOTE: Any option involving a dual minimum for small business would have little or no chance of acceptance by Congress.)

DECISION:

Option 1 _____
Option 2 _____
Option 3 _____
Option 4 _____

BLUMENTHAL MEMO



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

"PRIORITY"

1977 MAR 23 AM 11 35

MEMORANDUM FOR THE PRESIDENT

FROM: W. Michael Blumenthal *UMB*
SUBJECT: Minimum Wage Legislation

Issue

Legislative proposals for changes in the minimum wage were reviewed by the Economic Policy Group in preparation for Secretary Marshall's testimony before the House Committee on March 24, 1976. Agency views differ regarding the appropriate level of any future change in the minimum wage and a decision by you will be necessary prior to the March 24, testimony.

Background

A bill introduced by Congressman Dent is currently before the Education and Labor Committee which would

- raise the minimum wage from its present \$2.30 hourly rate to approximately \$3.30 (60 percent of gross manufacturer's earnings) on January 1, 1978;
- provide for automatic future increases through indexing to the manufacturing wage rate;
- exclude tip income from the definition of hourly wages (present law allows inclusion of a maximum of 50 percent of tip income).

Historically, the minimum wage has varied between 42 and 56 percent of straight time hourly earnings and averaged 50 percent since 1960.

The rate was last changed for most workers in 1976 although workers newly covered by the law in 1966 were brought up to the level of other workers in stages which

ended January 1, 1976, and January 1, 1977.

The group generally agreed that:

- automatic future increases indexed to straight-time hourly earnings were acceptable;
- The effective date of any adjustment should be July 1 with respect to average earnings in the year ending the previous March.
- The inclusion of 50 percent income in the wage rate should be continued (though a cap on the absolute amount might be appropriate).

There was not general agreement on the appropriate level of the minimum wage although discussion did reduce the unresolved decision to two options.

Options

1) Increase the minimum wage to \$2.70 per hour (53 percent of average earnings) one month after passage of the bill with a second stage increase to \$3.10 per hour (57 percent of earnings) on July 1, 1978 with an automatic future indexing to straight-time hourly earnings.

(preferred by Departments of Labor and HUD)

2) The current \$2.30 minimum would be raised to \$2.40 (47 percent of earnings) after passage of the bill and indexed thereafter with an estimated increase to \$2.57 per hour on July 1, 1978.

(preferred by Treasury, OMB, CEA and Commerce)

This was a controversial topic where Secretary Marshall believed that equity consideration dictated an increase of the magnitude indicated in Option 1. He believed that disemployment and inflation effects would be minimal.

Others were concerned that the disemployment effects (particularly for teenagers) and the inflation implications were substantial. Furthermore, they believed that the minimum wage is an ineffective means of addressing the problem of low incomes.

The differing views are reflected in the attached memorandum for the Economic Policy Group by CEA and a memorandum by Secretary Marshall.

Option 1: Increase the minimum wage to \$2.70 per hour (53 percent of average earnings) one month after passage of the bill with a second stage increase to \$3.10 per hour (57 percent of earnings) on July 1, 1978 with an automatic future indexing to straight-time hourly earnings.

Approve _____

Option 2: The current \$2.30 minimum would be raised to \$2.40 (47 percent of earnings) after passage of the bill and indexed thereafter with an estimated increase to \$2.57 per hour on July 1, 1978.

Approve _____

Attachments

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20506

March 17, 1977

MEMORANDUM FOR THE ECONOMIC POLICY GROUP

FROM: COUNCIL OF ECONOMIC ADVISERS

SUBJECT: Minimum Wage Legislation - Economic Effects

The minimum wage is of current interest because of pending congressional actions to amend the current legislation:

- to raise the level above the present \$2.30 per hour, and
 - to provide for automatic increases in the future through indexing to the manufacturing wage rate.
- o A higher minimum is advocated by some as a means of improving the relative position of low-income families and is involved in the concept of a "decent wage"; but opposed by others on the grounds that
 - it reduces employment (particularly for teenagers);
 - it has an inflationary impact;
 - it creates additional compliance problems; and
 - it is a relatively ineffective method of redistributing income.
 - o Historically, the minimum wage has varied between 42 and 56 percent of straight-time earnings in manufacturing, with an average ratio since 1960 of 50 percent.



- o Indexing of the minimum wage would moderate the disruptive effects of large periodic adjustments, reduce the need for periodic debate, and eliminate the erosion of real incomes of recipients between legislated increases. However, it may build a greater inflation response to economic disruptions.
- o Estimates of the employment effect from existing studies are conflicting and controversial. There have been some studies suggesting that the employment effects are negligible. Recent empirical studies have found significant adverse effects.
 - averages of several recent studies are used to obtain a range of numerical estimates for several options.
 - this average excludes the more extreme studies and is not reflective of those that found no impact.
- o The direct effect of a rise in the minimum wage on the average wage bill is a measure of the minimum impact on the price level. There are also indirect effects.
 - some spill-over effect of the rise in the minimum wage on other wage rates,
 - a feedback effect of price increases on other wage rates.
- o The use of the minimum wage to raise the income of poor families is thought to be a relatively inefficient means of redistributing income because there is a loose correlation between wage rates and family income.
 - The correlation is fairly strong for adult workers. The median family income for adult workers with a wage below \$2.00 in 1972-73 (the minimum wage was \$1.60 at that time) was \$7,576 -- compared to a poverty income of \$4,247, and an overall median of \$12,620.

- But only 2.5 million of the 9.5 million low wage workers were heads of family.
 - For teenagers, median family income of low wage workers was \$12,900; less than 7 percent of teenage low wage workers were in poverty line families.
 - For every billion dollar increase in the minimum wage, low-wage workers in families below the median income are estimated to experience a net gain of \$350 million (allowing for no employment loss). The amount going to poverty line families is substantially less.
- o Recent studies indicate that there may be serious compliance problems:
 - In manufacturing, compliance in 1973 was estimated at 60-70 percent, but rates of 40-50 percent were found in transportation and construction.
 - These compliance problems might increase if the minimum wage were raised considerably above its historical relationship to other wage rates.
 - o Budget outlays would increase for a higher minimum wage because of its impact on allowances paid as part of the Department of Labor training programs.
 - FY 1978 budget increases would range up to \$620 million for a \$3.00 minimum wage.

Alternative Options

A. Dent Bill

The Dent Bill calls for an increase in the minimum wage to 55 percent of average hourly earnings in manufacturing 30 days after passage and to 60 percent on January 1, 1978. The Council of Economic Advisers estimates that the economic effects would be:

- a loss of 170 to 340 thousand jobs (mainly for teenagers);
- an increase in the price level ranging from 0.7 to 1.8 percent;
- an additional loss of 25-50 thousand jobs, and an additional 0.1 percent on the price level, if the special provisions of the bill which exclude tip income are retained; and
- relatively small, but generally favorable income distribution effects.
- most of the economic effects would occur in 1978 and thereafter.

B. Dent Bill Stretched Out

This option would spread the period of adjustment of the minimum wage up to 60 percent of straight-time hourly earnings in manufacturing over four years. The total economic effect would remain the same but the impact on prices and employment would be stretched out over four years.

- other variations which provide for larger adjustments in the early years can easily be developed.
- a variant of this option would involve ending the phasing in of increases in the minimum wage at 50 or 55 percent of the base wage.
- there would be little adverse effect in 1977.

C. Indexing of a \$2.30 minimum

This option would simply extend the current minimum on an indexed basis.

- It is below the historical average ratio to the straight-time wage rate (50%) and;
- The ratio would remain below the peak of 56 percent reached in earlier legislated increases.

- It is treated as having no adverse employment or price level effects since there is no future change in relative wage rates.

D. A Lower Minimum Wage For Small Businesses

This option would leave the minimum wage for small business establishments with less than 20 employees at \$2.30 until July 1, 1978, after which the minimum wage for these firms would be indexed to the base wage. For larger firms, the minimum would be indexed beginning on July 1, 1977 at 50 percent of the base wage.

- The economic effects would involve an employment loss estimated at 12 to 25 thousand jobs, and an 0.1 percent rise in the price level.
- The adverse effect on teenage employment would be considerably less than in options A and B above, because a large proportion of teenagers are employed by establishments with relatively few employees.
- The adverse economic effects would be nearly eliminated by postponing the indexing of the small business minimum until July 2, 1979.
- There would be a steep discontinuity for firms whose employment increases beyond 20 workers. This could be handled by making the shift to the large business category non-revertable and allowing the firm three years to come into compliance with the higher minimum.
- o Other versions of a split minimum wage distinguish teenagers or those firms who were newly covered by the 1966 and 1974 amendments.
 - These three versions have similar economic effects because there is substantial overlap among the workers and firms who would be included.
 - The industries affected would be services and retail trade.

- In any case the potential employment loss or price inflation would be nearly eliminated.

E. No Indexing

This option would postpone the inclusion of indexing until a comprehensive study of the economic impact of indexing minimum wage levels could be done. It would thus avoid some of the inflation and employment effects which the Dent proposal would produce. The size of the accompanying one time adjustment in the minimum wage level -- if any -- must be known to determine just what the effects would be of this option.

- Although periodic large increases in the minimum wage can be disruptive, the present nonindexed system does result in a falling real minimum wage in the periods between revision, and may result in a lower minimum wage -- on the average.
- It would not provide protection against the harmful effects of inflation on resource allocation or general welfare. This is particularly true for the unemployed or those on fixed incomes. They would be relatively worse off.
- Partial indexing, such as indexing wages but not prices, can lead to distortions in the economy. Instead of leading to stability, this could lead to higher inflationary expectations.
- Removing the need to legislate minimum wage increases makes inflation more palatable, and thus more difficult to bring under control.

Projections of Minimum Wages
Under Various Alternatives^a

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Dent Bill (indexed)	2.79 ^b (55%)	3.14 (60%)	3.37 (60%)	3.60 (60%)
Stretched-out Dent Bill (indexed)	2.40 ^b (47%)	2.62 (50%)	3.09 (55%)	3.60 (60%)
\$2.30 (indexed)	2.30	2.36 (45%)	2.52 (45%)	2.70 (45%)
Split Option (indexed)				
Large Business	2.54 ^b (50%)	2.62 (50%)	2.81 (50%)	3.00 (50%)
Small Business	2.30	2.44 ^b (45%)	2.60 (45%)	2.70 (45%)
<u>Addenda</u>				
Poverty Wage (Family) ^f single earner ^c	3.01	3.17	3.32	3.49
two earners ^d	2.01	2.11	2.21	2.33
Poverty Wage (Individual) ^{e, f}	1.50	1.57	1.65	1.73

- a. Based on straight time average hourly earnings in manufacturing, year ending September 30. Assumes a 7 percent annual growth rate in the manufacturing wage for the 12 months ending in September of the previous year.
- b. Assumed to take effect on July 1.
- c. Hourly wage for 40 hour work week for family of four with one wage earner and poverty level of income.
- d. Hourly wage for 40 hour work week for family of four with one full time wage earner and one half time.
- e. Poverty wage for individual.
- f. Excludes transfer support payments. The poverty wage is projected at an assumed 5 percent inflation rate.

Note: the comparison to poverty income is complicated by the fact that, for families in the lowest fifth of the income distribution, 39 percent have no earner and for those that do, the average number of earners is 1.35

MARSHALL MEMO

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

March 22, 1977 MAR 23 AM 8 16

MEMORANDUM FOR: THE PRESIDENT

FROM: RAY MARSHALL *for Marshall*
SECRETARY OF LABOR

SUBJECT: Options for an Increase in the Minimum Wage

I have been requested to present the Administration's views on an increase in the minimum wage this Thursday before the House Education and Labor Subcommittee (Congressman Dent).

CEA Option: Maintain the current \$2.30 minimum wage rate for another 15 months until July 1, 1978, at which time it will be increased to \$2.45 under a formula which indexes the minimum wage to 45 percent of the straight time average hourly earnings in manufacturing. The proposal would thus freeze the minimum wage at its current ratio of 45 percent of straight time hourly earnings. This 45 percent ratio is substantially below the relationship which proponents of the minimum wage have always considered equitable. Historically, the ratio at the time of prior legislated increases have averaged over 50 percent, ranging from a low of 46 percent (Nixon) to a high of 57 percent (Johnson).

The CEA's recommendation is based upon the alleged inflationary and employment effects of a higher minimum.

It is the conviction of the Department of Labor that neither organized labor nor the Congress will support a recommendation which locks minimum wage earners into an historically disadvantageous position in relation to average wage earnings. Organized labor, while calling for an immediate increase to \$3.00 per hour, supports H.R. 3744 (Dent Bill) which uses an indexing formula (equivalent to 63 percent of straight time average hourly earnings in manufacturing) that yields a higher rate so that the minimum wage would go to \$2.85 an hour in July 1977, \$3.31 an hour in January, 1978 and \$3.54 an hour in January, 1979.

The Department of Labor, recognizing some of the economic concerns raised by the CEA, proposed a minimum wage increase designed to protect the needs of low paid workers.

DOL Option: Increase the minimum wage to \$2.70 an hour effective July, 1977, to \$3.10 an hour in July, 1978, with indexing after that time. The reasons for the Department's recommendations are as follows:

Maintaining the Historical Relationships and Purchasing Power of the Minimum Wage

At the present time, the value of the \$2.30 an hour minimum wage has been seriously eroded in relation to average wage levels. Had the basic \$1.60 an hour minimum wage, which went into effect in February, 1968, been indexed to the formula contained in the Dent Bill, it would now be \$2.94 an hour. Even if the minimum wage had only increased as rapidly as the CPI, the minimum wage would be \$2.77 per hour. We estimate that for the head of a family of four to have earned at least the nonfarm poverty income while working full-time, year-round, the minimum wage would have to have been \$2.78 an hour in 1976 and \$2.92 in 1977.

The CEA recommendation for indexing, without any immediate increase in the existing minimum wage, would freeze the ratio of the minimum to average earnings at an abnormally low level.

Employment

There is no consensus regarding the size of any disemployment impact related to minimum wage increases. The studies conducted by the Department of Labor following previous wage increases have not shown significant disemployment effects. CEA estimates that a bill such as DOL proposes might increase unemployment by 30 to 70 thousand persons (although the effect on employment will be greater). Even this estimate, moreover, is based on a very small

sample. Such small samples have a large margin of error and therefore do not, in my view, serve as a proper basis for the formulation of a national minimum wage policy. Moreover, there is no evidence that an increase in the minimum wage will cause any employee to lose his or her job. The "disemployment" figure is simply an estimate of the number of jobs which will not come into existence as a result of increases in labor costs.

Recent newspaper articles have expressed a concern that a higher minimum wage will reduce employment opportunities for teenagers. There is no evidence, however, that a lower minimum wage will result in the increased employment of disadvantaged youth who lack the requisite skills and training to compete in the job market.

The way to deal with these problems is not through the minimum wage but through the specifically drawn youth employment proposals which you have already submitted to the Congress. If, you have an overriding concern over the disemployment effects on marginal groups of workers the solution is not to hold down the minimum wage for everyone, but to consider a more gradual schedule of increases in the minimum for those employees brought under coverage of the Act by the 1966 or 1974 amendments (primarily retail trade, service industry workers and farm workers).

Inflation

The inflationary effect of a minimum wage increase depends on three phenomena: (1) The extent to which employers increase productivity or reduce the profits in response to higher wage costs; (2) The extent to which legally mandated wage increases have a ripple effect in which workers above the new minimum wage get increases to maintain previous wage differentials and (3) The extent to which initial price increases trigger further price and wage increases in the traditional inflationary spiral. The first of these factors will moderate the direct effect of the minimum wage increase while the latter two multiply them. The CEA ignores the first factor, assumes the second factor will increase the direct effect by 100 percent and that once you add the third factor the total effect on prices will be 2.6 times the direct effect. The Department of Labor thinks the first, inflation moderating, phenomenon will be the most important factor. The Department believes adoption of its proposal will lead to an increase in prices of only one-quarter of 1 percent. We assume that the productivity increase would offset the multiplying effect of factors two and three described above.

The Department of Labor does share the CEA's concern over the economic effects of eliminating the tip credit. It is estimated that this provision of the Dent Bill would result in an annual wage bill increase of about \$1.7 billion. Neither the CEA nor DOL support complete elimination of the tip credit. Some compromise will be appropriate.

Incentive to Work

Our objective in welfare reform is to move as many persons as possible from AFDC to work in the private sector. When the minimum wage yields less than what a family could obtain on welfare, there is no incentive for the welfare recipient to go to work or for the low wage worker to continue working. The DOL proposal would bring a full-time worker over the poverty line next year.

Other Considerations

Organized labor views an adequate minimum wage as the cornerstone of labor standards for American workers. While the basic support for minimum wage legislation has come from organized labor, the primary beneficiaries of the minimum wage are the unorganized minority and female adult wage earners.

Relationship of Minimum Wage Rates Proposed
Under Various Options to Straight-time Average Hourly
Earnings in Manufacturing (AHE for the 12 months
ending 3 months prior to the date of minimum wage increase)

	July 1977	Jan. 1978	July 1978	Jan. 1979	July 1979	Jan. 1980	July 1980	Jan. 1981	July 1981
<u>Dent Bill</u>									
Min. Wage	\$2.85	\$3.31		\$3.54		\$3.79		\$4.06	
% of AHE	56%	63%		63%		63%		63%	
<u>CEA Option</u>									
Min. Wage	\$2.30		\$2.45		\$2.62		\$2.81		\$3.00
% of AHE	45%		45%		45%		45%		45%
<u>DOL Recommendation</u>									
Min. Wage	\$2.70		\$3.10		\$3.34		\$3.57		\$3.82
% of AHE	53%		57%		57%		57%		57%
<u>Poverty Level Minimum Wage (Calendar Year Estimate)</u>	\$2.92	\$3.06	\$3.06	\$3.21	\$3.21	\$3.37	\$3.37	\$3.54	\$3.54

Relevant Labor Force StatisticsMillions of Workers

Total work force, February 1977	96.1
Number of wage and salary workers	79.4
Number of teenagers (16-19)	8.2
Number of unemployed teenagers	1.6
Percent of total number of teenagers	19.9
Employed persons, September 1976	89.2
Wage and salary workers	83.8
Covered by minimum wage - FLSA	51.9
Number of workers covered by FLSA paid less than \$2.70 an hour	6.7

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

Background Paper Analyzing the CEA's Recommendation
Regarding Minimum Wages

A major problem with the CEA recommendation is that it relies heavily upon the work of Edward Gramlich, University of Michigan. Gramlich's 1976 study of earnings, employment and prices utilized the merged March - May CPS data set on wage rates and family income. Extreme caution must be exercised in utilizing and interpreting these data for the following reasons:

1. The data set has a sample size of only one-fourth of the regular monthly CPS sample of 47,000 households. This is due to (a) the merger of the two different months (a 50% turnover in sample occurs) and (b) nonresponse to relevant questions.
2. The nonresponse to the earnings questions is about 20 percent for adults and 17 percent for teenagers--the extent of the bias due to this problem has not been determined.
3. Earnings data for all members of a household are collected from one member of the household--some loss of accuracy may be expected.
4. Tests of the accuracy of the earnings data are still not complete so the data must be used with caution--especially when applied to small population groups.

The problems related to this small sample size argue for great care when using the data as the basis for making major policy decisions.

A. Employment

In 1938, total non-agricultural employment was about 36 million; since that time total employment has more than doubled. During the entire period, minimum wage legislation was in effect, and the minimum rate has been periodically raised.

It is perhaps as accurate to credit the minimum wage with having caused the employment growth as it is to blame unemployment and disemployment effects on minimum wage changes. More reasonably, the major determinants of employment changes do not include changes in the minimum wage. Rather, fiscal and monetary policy, long term trends in capital formation and investment, business cycles, international trade and foreign military assistance have a much more telling impact on employment levels. Unfortunately, statistical techniques designed to measure the unique effect of minimum wage changes inadvertently "capture" the economic impact of these other factors.

Thus, the empirical studies of the employment impact of the minimum wage all suffer from one or more specification or data problems which may affect the results. Simply stated: (1) there is no consensus on the appropriate way of defining and measuring the minimum wage variable -- for example, there is no agreement as to how to incorporate coverage changes in this variable, (2) there are differing views regarding the appropriate lag structure to incorporate in models (according to some economists the impact may not be felt for several quarters after the minimum is increased), (3) there is no agreement among the studies as to which factors in addition to the minimum wage affect employment and should, therefore, be held constant in order to isolate the effects of the minimum itself (e.g. special government employment programs), (4) the data prevent accurate specification of some variables (e.g. school attendance, welfare participation), and (5) the limited sample size for blacks makes findings regarding black teenagers suspect in time series studies.

The CEA paper gives the impression that these problems have been largely overcome with the availability of the CPS data and Gramlich's processing of that data. This is simply not so; major problems persist and are reflected in Gramlich's work.

1. Gramlich concludes that the major effect of the minimum wage is to force teenagers out of full-time jobs and into part-time jobs and to encourage adult women to enter the full-time job market. The inference seems to be that women are taking the full-time jobs formerly held by youths. Based on Gramlich's original work, this inference is statistically unproved since he utilized two separate regressions for measuring employment changes for women and youth.

Unquestionably, any potential disemployment effect on young workers is a serious social concern. The post-war "baby boom" which sharply increased the number of teenagers in the 1970's placed a severe strain on the ability of the economy to absorb all of those teenagers interested in working. By 1980, however, there will actually be 2 percent fewer teenagers than in 1975 and teenagers as a proportion of the population 15 years and over will also decline. This shrinkage in the size of the teenage population is expected to continue until about 1990.

Currently, employment opportunities for young people should not be adversely affected in view of the Section 14 subminimum wage provisions of the current law and the new Administration programs designed to establish a substantial number of new jobs and training opportunities.

2. Utilizing Gramlich's estimates of elasticity of employment of the total working-age population to changes in the minimum wage, the CEA paper quantifies the disemployment effect of a higher minimum wage at 340,000 jobs. What is overlooked is the fact that the very

small CPS sample size could lead to an estimation error of as much as 400,000 jobs. In other words, it is statistically possible, based on Gramlich's data, that there is no disemployment effect of a higher minimum wage.

Today, there is no consensus regarding the size of any disemployment impact related to minimum wage increases. In fact, aggregate data indicate that employment has generally increased over periods during which the minimum wage has increased:

<u>Year</u>	<u>Basic minimum wage</u>	<u>Total nonagricultural employment (thousands)</u>
1949	\$0.40	43,778
1950	.75	45,222
1956	.75	52,408
1957	1.00	52,894
1960	1.00	52,234
1961	1.15	54,042
1962	1.15	55,596
1963	1.25	56,702
1964	1.25	58,331
1966	1.25	63,955
1967	1.40	65,857
1968	1.60	67,951
1969	1.60	70,442
1973	1.60	76,986
1974	2.00	78,413
1975	2.10	77,051
1976	2.30	79,441

In the above listing, the basic minimum wage averaged roughly 50 percent of gross average hourly earnings of production workers in manufacturing. It is recognized that low-wage firms are faced with an increase in labor costs when the minimum is increased. The necessary reappraisal of

business practices often results in management improvements and efficiency gains which compensate for the legislated wage increases.

Finally, since minimum wage increases benefit low-wage workers with a high propensity to consume, there is a stimulus to the economy. Product demand increases and this in turn may lead to some increased employment.

B. Prices

While there is some increase in employment cost as a direct result of a minimum wage increase, the CEA paper, again relying on Gramlich data, estimates the emulation effect (ripple or bumping-up effect) to be as great as the direct effect. The increased costs are assumed to result in higher prices. A further extension of the argument is that the higher prices, in turn lead to demands for increased wages.

The price term in Gramlich's equation implies that if the minimum wage effect on average wages is passed directly through to prices, there will be a permanent increase in the rate of inflation of .032 percent for each 1 percent increase in the minimum. The CEA paper developed estimates of the effect of higher minimum wages on inflation using first the Gramlich price coefficient of 1.0 and second, a price coefficient of 0.5 which means the wage-price spiral damps to zero over time. An increase in the minimum from \$2.30 to \$2.70 would, therefore, permanently raise the rate of inflation by 0.6 percent using the Gramlich price coefficient of 1.0. The same increase would raise the price level (not the rate of inflation) by 1.2 percent in the long run using a price coefficient of 0.5.

Gramlich's estimates of the direct and indirect effects on average wages are based on his coefficient and the CPS data reviewed earlier. Since the CPS data do not identify covered employers, have large nonresponse rates, are subject to problems of accuracy, and do not distinguish between part-time part-year and full-time year-round workers, his direct and indirect effect estimates must be considered at best rough approximations. Moreover, Gramlich's original estimates of the direct effect has to be considered on the high side since his direct wage bill calculations assumed an increase to \$2.00 for all workers -- newly covered groups, however, were raised to only \$1.90 in May 1974.

The argument that there is a full transfer of wages into higher prices is refuted by historical data. From the 1940's up to the early part of this decade, wages increased annually at about a 5 percent rate; over the same period prices rose, on average, 3 percent each year. Usually the difference between the percentages is attributed to productivity gains.

While the measures of productivity indicate lower gains in recent years, it is an extreme position to assume that all increases will pass thru into higher prices. In addition to increased productivity their still exist very real competitive constraints to this transfer taking place. It is inaccurate to suggest that the transfer will be on a dollar for dollar basis.

Historical wage data also contradict the emulation or ripple-effect theory. Wage and skill differentials throughout this century have been declining; from a ratio of 4 or 5 down to a ratio of 1.2 to 1.7 (the wage difference between high and low-paid workers) in most industries today. Factors contributing to the decline have included improved education and the increase in the number of workers able to learn skilled jobs, technological changes which have diluted the skill content of many jobs and efforts to upgrade the skill content of low-paying jobs.

Today in both union and nonunion bargaining situations arguments for wage increases are related to maintaining real income levels, sharing the benefits from productivity gains or maintaining a historical relative wage position with another firm or industry. This last argument recognizes the importance of wage changes among firms but this is very different concern from one related to maintaining skill differentials within a firm. Unfortunately, the concerns are often confused. (Recognition of the importance of wage movements among firms was reflected in past programs including the Construction Industry Stabilization Committee and the Cost of Living Council regulations regarding "Tandem" pay.)

The compression in wage differentials has also been documented in many empirical studies conducted by the Department of Labor. The immediate effects of past increases in the minimum wage have been to compress the wage structure, with wage increases going to employees paid at or close to the minimum rate. With elapsed time, wages tend to disperse, but they do not reach the degree of dispersion existing prior to increase in the minimum rate.

Comments on this subject from Labor Department reports to the Congress under Sec. 4(d) of the Act are listed below. The 1964 Report, which appraised the 1961 Amendments, stated with respect to indirect effects:

First, the 1961 minimum wage increases had no discernible effects on average wages in the economy generally.

The 1968 Report to the Congress stated with respect to hotels and motels:

The application of the \$1.00 minimum wage to employees in the nation's hotels and motels resulted in a substantial change in the wage pattern of covered employees paid below the minimum wage; but in very few changes in the wage structure above that level.

With respect to hired farmworkers, the 1968 Report stated:

The immediate effect of the application of the \$1.00 an hour Federal minimum to covered farms was pretty much confined to raising the wages of hired farmworkers who had been paid less than \$1.00 an hour prior to that date. There was little or no evidence of a bumping effect of the wage increases.

With respect to eating and drinking places, the 1968 Report stated:

There is little evidence of indirect wage effects due to the application of a minimum wage to employees in covered eating and drinking places. Wage increases were confined, for the most part, to wages under 55 cents an hour for tipped employees and under \$1.05 for non-tipped employees.

With respect to educational institutions, the 1970 Report stated:

Changes in wage structure of educational institutions between the survey periods indicate that wage increases granted in response to the higher Federal minimum were limited almost entirely to nonsupervisory employees in the lowest wage brackets.

The absence of an emulation effect would cut in half Gramlich's estimate of a .032 percent increase in the rate of inflation for each one percent increase in the minimum.

Estimates of the direct wage bill impact of proposed minimum rates have been developed. Department of Labor recommended increases would add about \$12 billion to the wage bill by 1980. Relative to total wage and salary disbursements, the direct impact of the proposed rates are small; less than one percent. In terms of GNP, increased wages will amount to 0.2 to 0.3 percent.

The question of inflationary impact on GNP of minimum wage increases should be viewed in the context of alternative measures to assist low-income families and stimulate the economy such as the negative income tax and welfare. Minimum wage increases of the magnitude recommended would be considerably less inflationary than either of these alternatives.

It should also be noted that wage costs represent only a portion of an employer's costs of doing business. The proportion of total costs represented by wages varies depending on the extent to which an industry is labor intensive or capital intensive. Prices are not necessarily increased even in labor-intensive industries because employers may find more efficient means of production to counter-balance the higher wage costs.

Finally, the CEA paper implies that indexing itself will increase inflation. In fact, except for the initial catch-up adjustments, there should be very little difference in the inflationary impact of indexing vs. not indexing unless the ratio of the minimum to average hourly earnings is higher under indexing than it has been in the past. The CEA paper agrees that indexing would have the desirable effect of moderating the destabilizing impact of large discrete jumps in the legal minimum, reducing the need for periodic debate over the appropriate level, and eliminating the erosion of the real income of recipients between legislated increases.

C. Income Distribution Effect

The CEA paper concluded that the minimum wage is not an efficient mechanism to use to alter the income distribution since there is a low correlation between low-wage workers and family income. Also noted is the Gramlich calculation that the net benefit to families below the median level of income is only \$350 million of each \$1 billion wage bill increase due to the minimum.

There are several conceptual and technical problems related to the CEA position. Conceptually, there seems to be some confusion concerning the purpose of minimum wage legislation and the relationship of the minimum wage level and a poverty level income. Unquestionably, the poverty income level serves as a barometer to measure the adequacy of the minimum wage. When the minimum wage no longer provides a living standard above the poverty level to a full-time year round worker, there is justifiable cause for social concern.

However, the fact that many low paid workers are part of families with total earnings above the poverty level, should not be used as an indictment of the minimum wage as an effective poverty prevention and income transfer mechanism. On the contrary, to the extent that the minimum wage prevents low-paid employees from slipping below the poverty income level, it proves its effectiveness as an anti-poverty measure. Admittedly, many poverty level families do not include wage earners. For example, the elderly, the unemployed, welfare recipients and subsistence farm families and their dependents would not benefit from improved minimum wage levels. Other social welfare programs have been developed to deal with the needs of these groups. Minimum wage legislation has been fulfilling its role in protecting the interests of the low-paid employed population.

To further illustrate the problems involved with the data used and their interpretation, it is possible to rework the data used by Gramlich to show that over two-thirds of the one billion dollar wage bill increase due to a rise in the minimum wage would accrue to families with incomes below the median. (Gramlich did not account for the large percentage of part-time workers among teenagers in calculating his distribution estimate.)

Estimated distribution of a one billion dollar
wage bill increase between high and low income
families

	<u>Family income above median</u>	<u>Family income below median</u>
Teenagers	\$150 million	\$150 million
Adults	<u>175 million</u>	<u>525 million</u>
	<u>\$325 million</u>	<u>\$675 million</u>

While teenagers have proportionately more low-wage workers than adults, in terms of actual numbers of workers, many more adults are affected by increases in the minimum wage. Again the data used by Gramlich indicate that 70 percent of low-wage workers (those paid less than \$2.00 an hour in 1972) were adults.

Finally, while a bare majority (52 percent) of low-wage teenagers are in families with incomes above the median the situation is very different for adults. Some 76.5 percent of low-wage adult males are in families with incomes below the median as are 75 percent of low-wage adult females.

D. Compliance

The CEA paper notes that Gramlich tested for compliance in 1973 and 1975 for both fully covered and partially covered industries and found very low compliance levels--around 50 percent--in all industries.

This citation is selective, gives a distorted impression of compliance levels and leads to erroneous conclusions. For example, the CEA paper concludes that--"more severe compliance problems would be confronted if the minimum wage level were to be raised--."

The high non-compliance statistic arises from Gramlich's arbitrary definition of non-compliance; he focuses attention only on low pay workers. Yet, every employer is a potential violator and minimum wage violations could occur with regard to high-wage workers. An employer who fails to pay a \$5 an hour worker for all hours worked is violating the minimum wage provisions of the law. The fact is, however, that most employers voluntarily comply with legislated labor standards.

1. In Gramlich's original paper he relates that only a very small percent of the labor force--6-7 percent--appear to work at subminimum wages. These workers are below the minimum because they do not work in enterprises covered by the law or because the law is not being complied with. It is important to note that the high estimates of non-compliance relate to a very small percent of the labor force which was estimated on the basis of an extremely small number of sample observations.
2. The small number of observations on which the estimate of non-compliance was based was dominated by employees found in the retail trade industry. It is probable that many of these employees worked in

enterprises not covered by the provisions of the Federal minimum wage or were paid subminimum wages in accordance with specific tolerances provided by the FLSA (e.g. tipped employees need only be paid 50 percent of the minimum if they receive the rest in tips; certificated learners, apprentices, full-time students, handicapped workers, etc.). It is inaccurate to draw inferences on non-compliance based on Gramlich's sub-sample.

A more recent BLS report, "Trends in Weekly and Hourly Earnings Among Major Labor Force Groups," which utilized more recent CPS data, noted that changes in the distributions of employees by average hourly earnings between May 1973 and May 1976 indicated substantial compliance with the newly established wage levels.

For example, a comparison of wage distributions for 1973 and 1975 indicated that about 20 percent of hourly paid workers were paid at hourly rates of less than \$2.00 in May 1973. Effective May 1974 the Federal minimum was raised from \$1.60 to \$2.00 an hour for employees covered prior to 1966 and \$1.90 for employees covered by the 1966 and 1974 Amendments and to \$2.10 and \$2.00 respectively, on January 1, 1975. By May 1975, only 5 percent of hourly paid employees were being paid hourly rates below \$2.00. The finding indicates a very high level of voluntary compliance with the law.

As noted, however, there are problems with relying on the CPS data. A BLS evaluation of the data found that persons reported as working in manufacturing industries in the CPS study had average wage rates about 8 percent below average earnings reported in establishment surveys. While the two data series are not exactly comparable, indications are that there may be a downward bias in the CPS wage rate data. Such a downward bias would lead to over estimates of the numbers of workers earning less than the legal minimum.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MAR 17 1977

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: Ray Marshall
Secretary of Labor

SUBJECT: Minimum Wage Legislatiion

The basic concepts underlying the Fair Labor Standards Act represent sound social and economic policy. When enacted in 1938, this law was at the forefront of pioneering social legislation; today, it continues to be a mainstay in the Nation's efforts to achieve a decent standard of living for our working citizens. At the same time, the Act also recognizes that substandard wages and working conditions not only victimize individual workers, but also represent unfair competition for employers maintaining accepted wage standards.

Present minimum wage levels do not yield sufficient earnings to provide head-of-household workers with an income above the defined level of poverty. The present methods of establishing the minimum wage level allow many years to elapse between Congressional enactments, thus failing to (1) protect workers against the ravages of inflation, (2) prevent the erosion of real income, or (3) enable them to share in the benefits of increased productivity. The Fair Labor Standards Act must be amended to establish and maintain a minimum wage level sufficient to keep workers' earnings above the poverty level.

Current Status and Need for an Increase

Each time the Congress has enacted an increase in the minimum wage, for a brief period the minimum wage in effect "catches up" with previous changes in the economy. Low-income workers are made "whole" after which the Congress and the country move on to other things. Always the improvements have been short-lived as prices continue to increase. Higher wage workers make gains through new collective bargaining agreements, cost of living clauses, or improvements in productivity, but many workers find themselves trapped with minimum earnings.

To take a long run view, if the basic \$1.60 minimum wage effective in February 1968 had kept up with gross average hourly earnings of production workers on manufacturing payrolls or gross average hourly earnings of production or nonsupervisory workers on private nonagricultural payrolls, it would now be \$2.94 an hour. (Apart from the cold statistics, millions of Americans are in families where the earnings are determined by the level of the minimum wage.) We estimate that for the head of a family of four to have earned at least the nonfarm poverty income while working full-time, year-round, the minimum wage would have had to have been \$2.78 an hour in 1976 and \$2.92 in 1977.

The Dent bill would accomplish the goals of FLSA by increasing the minimum to a level consistent with the purposes of the original legislation and maintaining that parity through its indexing provisions.

The Case for a Higher Minimum Coupled with Indexation

The increase in the minimum wage will significantly improve the economic status of a substantial number of low-wage workers.

- ° It will provide increased wages and purchasing power for over 12 million workers. These workers are typically unorganized and unable to share productivity gains without legislation.
- ° Over 2/3 of the wage bill increase that would result from the proposed legislation would accrue to workers in families with incomes below the median family income.

Prices

The price impact of the proposed legislation is modest.

- ° The wage increases required by the Dent bill will range between 1 and 2 percent of the total annual wage bill of all covered workers.

- ° In terms of the GNP, the impact of these increases will amount only to about 1/2 of 1 percent.
- ° The effect on prices of the Dent bill would be limited to the initial catch-up adjustments. Thereafter, there would be no inflationary effect since the indexation provision would reflect only changes in the general level of the economy.
- ° It is both reasonable and equitable for the economy to absorb increases of this magnitude to provide wage increases for those with minimum earnings.

Employment Effects

The disemployment effects of the proposed legislation will be minimal, if any.

- ° Economic effects studies conducted by the Department of Labor examining employment and income effects of minimum wage increases since 1938 have repeatedly shown little or no disemployment effects and little upward movement in the wage structure above the minimum. (See attached list of industry studies.)
- ° Past academic studies have not produced any consensus as to the relationship between minimum wage changes and changes in employment and unemployment levels.
- ° Employment opportunities for young people should not be adversely affected in view of the Section 14 subminimum wage provisions of the current law and the new Administration programs designed to establish new jobs and training opportunities.
- ° Since minimum wage increases benefit low-wage workers with a high propensity to consume, this will act as a stimulus to the economy. Product demand will increase and this in turn will lead to increased employment.

Compliance

A reasonable level of compliance can be achieved.

- ° Forty years of enforcement experience under the FLSA has demonstrated that most employers voluntarily comply with its requirements.
- ° The level of resources needed to maintain a reasonable level of compliance is small in relation to the benefits derived.

Attached is a table which revises some aspects of Table 3 in the background paper attached to the CEA draft memorandum (e.g. incorrect years for minimum wage adjustments). Column 3 in the revised table is directly comparable to Column 3 in the CEA Table 3. It indicates a higher historical ratio between the minimum wage and average hourly earnings of production workers on manufacturing payrolls than that in the CEA memorandum.

Attachments

Historical Relationship of Basic
Minimum Wage and Straight - Time Earnings
in Manufacturing

Period	Minimum wage	Straight- time earnings	Relative minimum ^{1/} (percent)	Relative minimum lagged one year ^{2/} (percent)
1944		0.93		
1945 (Oct.)	0.40	0.95	42.1	43.0
1946	.40	1.04	38.5	42.1
1947	.40	1.18	33.9	38.5
1948	.40	1.29	31.0	33.9
1949	.40	1.34	29.9	31.0
1950 (Jan.)	.75	1.39	54.0	56.0
1951	.75	1.51	49.7	54.0
1952	.75	1.59	47.2	49.7
1953	.75	1.68	44.6	47.2
1954	.75	1.73	43.4	44.6
1955	.75	1.79	41.9	43.4
1956 (Mar.)	1.00	1.89	52.9	55.9
1957	1.00	1.99	50.3	52.9
1958	1.00	2.05	48.8	50.3
1959	1.00	2.12	47.2	48.8
1960	1.00	2.20	45.5	47.2

Period	Minimum wage	Straight-time earnings	Relative minimum ^{1/} (percent)	Relative minimum lagged one year ^{2/} (percent)
1961 (Sept.)	1.15	2.25	51.1	52.3
1962	1.15	2.31	49.8	51.1
1963 (Sept.)	1.25	2.37	52.7	54.1
1964	1.25	2.44	51.2	52.7
1965	1.25	2.51	49.8	51.2
1966	1.25	2.59	48.3	49.8
1967 (Feb.)	1.40	2.72	51.5	54.1
1968 (Feb.)	1.60	2.88	55.6	58.8
1969	1.60	3.06	52.3	55.6
1970	1.60	3.24	49.4	52.3
1971	1.60	3.44	46.5	49.4
1972	1.60	3.66	43.7	46.5
1973	1.60	3.89	41.1	43.7
1974 (May)	2.00	4.24	47.2	51.4
1975 (Jan.)	2.10	4.65	45.2	49.5
1976 (Jan.)	2.30	5.00	46.0	49.5
1977	2.30	5.35	43.0	46.0
1945-1976 Average			46.3	48.8
1950-1976 Average			48.4	50.8

1/Minimum wage as a percentage of straight-time average hourly earnings in manufacturing.

2/Minimum wage as a percentage of previous year's straight-time average hourly earnings in manufacturing.

January 1977

List of Economic Studies Published by the Employment
Standards Administration, 1954 to Date

A. Industry Studies to Test Feasibility of Extending Coverage

1. Eating and Drinking Places, Preliminary report on data pertinent to an evaluation of the need for and the feasibility of extending the minimum wage, January 1962.
2. Laundry and Cleaning Service, Data pertinent to an evaluation of the need for and feasibility of extending the minimum wage, January 1962.
3. Hotels and Motels, Data pertinent to an evaluation of the need for and feasibility of applying statutory minimum wage and maximum hours standards, February 1962. (Value of tips in relation to cash wages.)
4. Restaurants and other Food Service Enterprises, Data pertinent to an evaluation of the need for and feasibility of applying statutory minimum wage and maximum hours standards, February 1962. (Value of tips in relation to cash wages.)
5. Hotels and Motels, Data pertinent to an evaluation of the need for and the feasibility of extending the minimum wage, January 1964.
6. Laundry and Cleaning Services, Data pertinent to an evaluation of the need for and the feasibility of extending the minimum wage, January 1964.
7. Restaurants and other Food Service Enterprises, Data pertinent to and evaluation of the need for and the feasibility of extending the minimum wage, January 1964.
8. Hired Farm Workers, Data pertinent to determining the scope and level of a minimum wage for hired farmworkers, January 1964.
9. Nongovernment Hospitals, A Study to Evaluate the Feasibility of Extending the Minimum Wage under the Fair Labor Standards Act, January 1965.
10. Hired Farmworkers, A Study to Evaluate the Feasibility of Extending the Minimum Wage under the Fair Labor Standards Act, January 1966.
11. Motor Carriers, A Study to Evaluate the Need for and Feasibility of Extending Overtime Provisions to Employees of Motor Carriers, January 1966.
12. Nursing Homes and Related Facilities, A Study to Evaluate the Feasibility of Extending Minimum Wage and Overtime Protection under the Fair Labor Standards Act, January 1966.

13. Laundry and Cleaning Services, A Study to Determine the Implications of Applying the Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1967.
14. Motion Picture Theaters, A Study to Evaluate the Feasibility of Extending Minimum Wage and Overtime Protection under the Fair Labor Standards Act, January 1967.
15. State and Local Governments, A Study to Evaluate the Feasibility of Extending Minimum Wage and Overtime Protection under the Fair Labor Standards Act, January 1971.
16. Private Household Workers: Data Pertinent to an Evaluation of the Feasibility of Extending Minimum Wage and Overtime Coverage under the Fair Labor Standards Act, 1974.

B. Distribution Studies to Determine Level of the Minimum Wage

1. Manufacturing Industries, A Study to Evaluate the Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1965. (Relationship between employees working overtime and the level of their wages.)
2. Wholesale Trade, A Study to Evaluate the Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1965. (Relationship between employees working overtime and the level of their wages.)
3. Wages and Hours of Work of Nonsupervisory Employees in All Private Nonfarm Industries by Coverage Status Under the Fair Labor Standards Act, January 1972.
4. Wages and Hours of Nonsupervisory Employees in Selected Nonagricultural Industries by Coverage Status Under the Fair Labor Standards Act, August 1975.

C. Studies of Effects of Minimum Wage Legislation

1. Results of the Minimum Wage Increase of 1950, published in 1954. (Economic effects in selected low-wage industries and localities.)
2. Studies of the Economic Effects of the \$1.00 Minimum Wage: Interim report, March 1957. (Economic effects in selected low-wage industries and localities.)
3. Reports Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act, January 1959. (Effects of the \$1.00 minimum wage in selected low wage industries and localities.)
4. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act 1959, February 1960. (Appraisal of the \$1.00 minimum wage and the Puerto Rico wage order program.)

5. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act (1960), January 1961. (Appraisal of proposed legislation and wage levels in Puerto Rico.)
6. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act, January 1962. (Appraisal of the effects of the 1961 Amendments.)
7. Shellfish Processing on the Atlantic and Gulf Coast, A Study of the Effects of Minimum Wage Coverage, December 1962.
8. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act, January 1963. (Effects in retail trade, nonmet areas of the South and North Central regions, and small met areas of the South.)
9. Effects of Minimum Wage Rates Established under the Fair Labor Standards Act in Retail Trade in the United States and Puerto Rico, A Study of Changes in Wage Structure of a Matched Sample of Retail Establishments. November 1963.
10. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act, January 1964. (Appraisal of the 1961 changes and study of wholesale prices in selected low-wage industries.)
11. An Evaluation of the Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1965. (Effects in nonmet areas of the South, effects of the 44-hour standard in retail trade, and wholesale prices in selected low-wage industries.)
12. Minimum Wage and Maximum Hours Standards under the Fair Labor Standards Act, An Evaluation and Appraisal, January 1966. (Effects in nonmet areas of the South and North Central regions, and small met areas of the South.)
13. Retail Trade, A Study to Measure the Effects of Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1966.
14. Minimum Wage and Maximum Hours Standards under the Fair Labor Standards Act, the 1966 Amendments, January 1967. (Coverage under the Fair Labor Standards Act, implications of the \$1.40 minimum in selected industries, and implications of the \$1.00 minimum in non-Federal hospitals.)
15. Retail Trade, A Study to Measure the Effects of the Minimum Wage and Maximum Hours Standards of the Fair Labor Standards Act, January 1967.

16. Report Submitted to the Congress in Accordance with the Requirements of Section 4(d) of the Fair Labor Standards Act, January 1968. (Effects and implications of the 1966 Amendments, and special reports on prices, Puerto Rico and Fair Labor Standards Act coverage.)
17. Eating and Drinking Places, A Study of the Effects of the \$1.00 Minimum Wage under the Fair Labor Standards Act, January 1968.
18. Hotels and Motels, A Study of the Effects of the \$1.00 Minimum Wage under the Fair Labor Standards Act, January 1968.
19. Hired Farmworkers, A Study of the Effects of the \$1.00 Minimum Wage under the Fair Labor Standards Act, January 1968.
20. Panama Canal Zone Study, A Study of the Effects of Extending the Fair Labor Standards Act Provisions to Federal Employees in the Zone, June 1968.
21. Minimum Wage and Maximum Hours Standards under the Fair Labor Standards Act, 4(d) report, January 1969. (Effects of the 1966 Amendments, and special reports on prices and coverage under the Fair Labor Standards Act.)
22. Nursing Homes and Related Facilities, A Study of the economic effects of the \$1.15 minimum wage under the Fair Labor Standards Act, January 1969.
23. Laundry and Cleaning Services, A Study of the economic effects of the \$1.15 minimum wage and 42 hours maximum workweek standards under the Fair Labor Standards Act, January 1969.
24. Hired Farmworkers, A Study of the effects of the \$1.15 minimum wage under the Fair Labor Standards Act, January 1969.
25. Minimum Wage and Maximum Hours Standards under the Fair Labor Standards Act, 4(d) report, January 1970. (Effects of the 1966 Amendments, and special reports on prices and coverage under the Fair Labor Standards Act.)
26. Educational Institutions, A Study of the economic effects of the \$1.30 minimum wage and 40-hour maximum workweek standards under the Fair Labor Standards Act, January 1970.
27. Hospitals, A Study of the economic effects of the application of minimum wage and maximum hours standards under the Fair Labor Standards Act, January 1970.
28. Minimum Wage and Maximum Hours Standards under the Fair Labor Standards Act, 4(d) report, January 1971. (Effects of the 1966 Amendments and special reports on cash wages and value of tips of tipped employees in eating and drinking places and hotels and motels, equal pay act, characteristics of workers paid in violation of the Federal minimum wage standard, coverage under the Act, and historical data on the relationship between the minimum

29. Hired Farmworkers, an economic effects study of proposals to increase the minimum wage under the Fair Labor Standards Act and the feasibility of extending coverage to additional workers, January 1972.
30. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) report, January 1972. (Secretary of Labor's statement on proposed amendments to the Act, effects of the last phase of the 1966 Amendments and special reports on wages and hours of work of nonsupervisory employees in all private nonfarm industries and hired farmworkers coverage under the Act, and the relationship between minimum wages and welfare reform legislation.)
31. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) report, January 1973 (Congressional activities to amend the FLSA, equal pay under the Act, administration and enforcement, special studies on wages and hours of work of non-supervisory employees in selected nonagricultural industries and private household workers, recent independent studies of the FLSA, and coverage under the Act).
32. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) report, January 1974 (Congressional activities to amend the FLSA, administration and enforcement of the Act, equal pay under the Act, coverage under the Act, and 3 special studies on: (1) wages and hours of work of nonsupervisory employees in selected nonagricultural industries, (2) private household workers, and (3) demographic characteristics of non-supervisory employees in the work clothing industry.)
33. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) report, January 1975, (Fair Labor Standards Amendments of 1974, administrative and enforcement of the Act, equal pay under the Act, impact of the 1974 amendments, and coverage under the FLSA.)
34. Demographic Characteristics of Nonsupervisory Employees in the Work Clothing Industry, November 1975.
35. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) Report, January 1976 (1974 Amendments to FLSA, Legislation to amend the FLSA, administration and enforcement, evaluation and research, and coverage estimates.)
36. Minimum Wage and Maximum Hours Standards Under the Fair Labor Standards Act, 4(d) Report January 1977 (1974 Amendments to FLSA, Legislation to amend the FLSA, administration and enforcement, evaluation and research, and coverage estimates.)

D. Studies of Group with Historically High Incidences of Unemployment

1. First Biennial Report to the Congress as Required by Section 4(d)(3) of the Fair Labor Standards Act, May 1975.

E. Administrative Studies

1. The Minimum Wage in Puerto Rico, A Background Study, November 1955.
2. Salary Test for Executive, Administrative, and Professional Employees, November 1955.
3. Handling and Processing of Agricultural Products, Data Pertinent to an Evaluation of Exemptions Available under the Fair Labor Standards Act, February 1962.
4. Salary Test for Executive, Administrative, and Professional Employees, March 1962.
5. Salary Test for Executive, Administrative, and Professional Employees, Puerto Rico and the Virgin Islands, April 1962.
6. A Special Compilation of Materials Relating to the Appropriateness of the Maximum Hours Standards, June 1963.
7. State Minimum Wage Laws and Orders Applicable to Employees in Hotels and Motels, Restaurants, and Laundries; Summary of Provisions Relating to the Level of the Minimum Wage, Standards for Overtime Compensation, Extent of Employee Coverage, and Methods of Crediting Gratuities and Other Fringe Benefits, January 1964.
8. Small Logging Operations, Data Pertinent to Evaluation of the 13(a)(15) Exemption of the Fair Labor Standards Act, January 1964.
9. Sheltered Workshop Report of the Secretary of Labor, September 1967.
10. Premium Payments for Overtime under the Fair Labor Standards Act, November 1967.
11. Sheltered Workshops, A Study of Wage Payments to Handicapped Clients in Sheltered Workshops Certified under the Fair Labor Standards Act, January 1969.
12. Earnings Data Pertinent to a Review of the Salary Tests for Executive, Administrative and Professional Employees, as Defined in Regulations, Part 541, June 1969.

13. Agricultural Handling and Processing Industries, Data pertinent to an evaluation of overtime exemptions available under the Fair Labor Standards Act, January 1970.
14. Cash Wages and Value of Tips of Tipped Employees in Eating and Drinking Places and Hotels and Motels, Data pertinent to an evaluation of the tip allowance available under the Fair Labor Standards Act, January 1971.

F. Exemptions Studies

1. Workers Certification Under Section 14 of the Fair Labor Standards Act, A report of Certification of Learners, Apprentices, Students and Handicapped Workers submitted to Congress 1976.

G. Foreign Trade Study

1. Foreign Competition in the Jewelry and Silverware Industry in the United States, February 1965.

H. Compliance Studies

1. Extent and Incidence on Noncompliance with the Fair Labor Standards Act, September 1957.
2. Extent of Compliance and the Characteristics of Noncompliance with Fair Labor Standards Act, May 1966.

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

no copies needed
file

FOR STAFFING
FOR INFORMATION
✓ FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND

ENROLLED BILL
AGENCY BILL
Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

CAB DECISION
EXECUTIVE ORDER
Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI
	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING
	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE

THE WHITE HOUSE
SIGNATURE MUST BE SECURED

TO:

The Honorable Brockman Adams
Secretary of Transportation
Washington, D.C. 20590

DATE. 3/22/77.....

NUMBER 003845.....

TIME REC'D

RECEIVED BY *Laurence Johnson*.....

DELIVERED BY *J. Well*.....

RETURN RECEIPT ROOM ~~STN O.E.O.B.~~

RICK HUTCHESON

THE WHITE HOUSE
WASHINGTON

March 22, 1977

Secretary Adams -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson

Re: DOT Issues for Presidential
Review

*St. Louis Airport
D.C. Metro Project*

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
	X	SWATSON

cc
ALAN 1/5

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		SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE



THE PRESIDENT HAS SEEN.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

1

INFORMATION

977 MAR 19 PM 1 41

March 18, 1977

MEMORANDUM FOR THE PRESIDENT

THROUGH: Jack Watson

SUBJECT: DOT Issues for Presidential Review

Bob Adam

This memorandum provides a status report on significant issues currently pending at the Department of Transportation.

Energy Proposals and Waterway Policy

As you know, Secretary of the Army Alexander and I are jointly reviewing the status of the Alton Locks and Dam 26 Project and will be recommending a course of action to you. In any discussion of waterway projects and programs, the subject of waterway user charges is raised.

The Corps of Engineers has continued its support of the Ford proposal which involved segment tolls on waterways as a means of imposing economic discipline on their construction and use. I do not think such a plan has any chance whatever of passage and, in fact, is designed to draw a maximum opposition. At the same time, I think the position taken by the past seven Presidents is correct. Waterway users should make some financial contribution in recognition of the major investment and operating cost subsidy provided their operations. I suggest, and will raise with Dr. Schlesinger, that if taxes on liquid fuels are part of the energy package, then they should be extended across the board to all transportation users, both as an energy conservation and a transportation policy matter. Such a new revenue source could be incorporated into the general fund of the Treasury, but at the same time could be identified as part of the Consolidated Transportation Account structure that I have proposed should be part of our total budget.

Electrostatic Copy Made
for Preservation Purposes

D.C. Metro Project

On March 17, I met with officials of the Washington Metropolitan Area Transit Authority and the local Council of Governments to discuss problems with the financing of the local Metro project.

good
I intend to hold a rigid line with respect to cost control. I will stress in discussions with the local officials the necessity for re-analysis, in light of today's circumstances, of those segments of the subway system not yet built, including a determination of how they will be financed and operated. At the same time, it is important that the Administration support Metro and construction progress move forward, particularly in light of the Administration's jobs strategy.

I will soon forward to you proposals for interim Federal financing of both the construction and the bond interest, in order to give us the local interests time to find a full solution.

Advance Design Buses

On March 15, the Department held a day-long public hearing on the issue of whether the Secretary should mandate or encourage the development of Transbus or a similar advanced bus which would benefit the elderly and handicapped. I opened the hearings and Deputy Under Secretary Downey was the presiding officer. Approximately two dozen witnesses were heard from among industry, trade groups, and representatives of elderly and handicapped organizations.

I will thoroughly review the testimony taken at this proceeding, with the intention of announcing new bus specifications by May 27, 1977.

St. Louis Airport

As indicated in my memorandum to you of March 11, I am currently reviewing former Secretary Coleman's decision to build a new St. Louis Airport at Columbia-Waterloo, Illinois for a cost estimated between \$300 million and \$600 million. I have undertaken this review since a major portion of funding for land acquisition for the proposed airport would occur during the next four years.

Unless you wish to be involved further, I will proceed and issue a written decision on this matter by March 31.

OK

Tanker Standards and Oil Pollution Liability and Compensation

On Friday, March 18, I testified before the Senate Committee on Commerce, Science and Transportation in support of your position on DOT regulations - Treaty Ratification and the Oil Spill Compensation Fund. The reaction was very favorable, and I believe we can move a bill through the Senate soon.

I indicated no Administration position had been established on cargo preference, and the Secretary of Commerce has the lead on the issue.

THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
X	WATSON

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	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE

THE WHITE HOUSE
WASHINGTON

Mr. President:

Jack Watson wants to know whether or not you wish to meet with Brock Adams, Dick Cooper and Alan Boyd this week.

Kraft opposes adding anything else to your schedule for the week.

Rick

THE WHITE HOUSE
WASHINGTON

March 22, 1977

Jack Watson
Tim Kraft

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Z. Brzezinski

Re: US/UK Civilian Aviation
Negotiations

THE WHITE HOUSE
WASHINGTON

March 23, 1977

The Vice President
Attention: Jim Johnson

Copy of Secretary Adams memo
as requested.

Rick Hutcheson



THE PRESIDENT HAS SEEN.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

*Tim -
20 min. ok
J*

277 6.1.1.1 EM ACTION

March 18, 1977

MEMORANDUM FOR THE PRESIDENT

THROUGH JACK WATSON

RE: US/UK Civil Aviation Negotiations

I am attaching a memorandum prepared by Special Ambassador Alan Boyd which the President requested prior to our meeting next week.

I have retained a copy for my files and have provided Under Secretary of State Dick Cooper with a copy.

Boyd Adams

**Electrostatic Copy Made
for Preservation Purposes**

March 18, 1977

MEMORANDUM FOR THE PRESIDENT

FROM SPECIAL AMBASSADOR ALAN BOYD
STATE DEPARTMENT

SUBJECT: U.S.-U.K. Civil Aviation Negotiations

The U.S. and the U.K. signed in 1946 the Bermuda Agreement governing rates, routes, capacity, airline designations and general operations of air carriers to, from and beyond the signatory countries. The U.K. terminated the agreement with one year's notification in June 1976, citing dissatisfaction with the benefits available to U.K. airlines. The U.K. desires a new agreement to give it 50 percent of the market. It proposes to accomplish this through a variety of demands involving government control of the capacity (seats) offered, eliminating all but one U.S. carrier on each route, and denying U.S. carriers the opportunity to pick up and discharge passengers beyond London.

The U.K. proposals are anticompetitive and, if accepted, would jeopardize our agreements with other nations, which permit operation of the current U.S. worldwide aviation network.

The U.S. has responded to U.K. charges of predatory competition from U.S. carriers by offering major concessions to (1) screen proposed capacity increases by U.S. airlines and (2) reduce severely the number of routes on which more than one U.S. airline would compete with a British airline.

While making concessions, the U.S. has stated in the strongest terms it will not agree to a regulated market split, will not agree to a U.K. veto of U.S. airline capacity increases, and will not agree to limit the right of U.S. airlines to pick up and discharge passengers beyond London.

The negotiations are moving well in other areas, but the U.K. has made it clear that denial of Concorde access to New York will have an extreme adverse impact on aviation negotiations.

If the U.K. maintains its current bargaining position to June 21, the following options are available:

1. Agree with U.K.

Will create noncompetitive market, government controlled with U.K. carriers getting 50 percent of traffic; will shrink U.S. airline network.

2. One-year extension of current agreement.

Not likely to suit U.K.

3. Operate on permit basis.

This plays into U.K. hands. Will result in market split determined by the U.K.

4. Order cessation of scheduled U.S.-U.K. airline operations.

a. Cessation most likely would not affect charter traffic, as charters are covered by a separate agreement.

b. Cessation expected to be of short duration, with strong push by U.K. for agreement.

c. Need to have alternate destinations (e.g. Amsterdam, Dublin, etc.) for U.S. operations during cessation.

Alan S. Boyd

THE WHITE HOUSE

WASHINGTON

Date: March 21, 1977

MEMORANDUM

FOR ACTION:

Tim Kraft

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Secretary of Transportation memo 3/19/77 re
US/UK Civil Aviation Negotiations.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: IMMEDIATE TURNAROUND

DAY:

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

Mr. President:

Jack Watson requests a
confirmation that you wish to

THE WHITE HOUSE
WASHINGTON

3/19/77

NOTE TO THE PRESIDENT

FROM: Jack Watson

RE: U.S./U.K. CIVIL
AVIATION NEGOTIATIONS

Attached is a preparatory memorandum
from Brock Adams in response to your
request for a briefing on this matter.

Please confirm that you would like to
meet with him, Dick Cooper (for Cy
Vance) and Alan Boyd this week.

Thank you.

Respectfully,

Attachment

A handwritten signature in cursive script, appearing to read "Jack", with a large, stylized loop at the bottom.

Date: March 21, 1977

MEMORANDUM

FOR ACTION:

Tim Kraft

FOR INFORMATION:

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TIME: IMMEDIATE TURNAROUND

DAY:

DATE:

ACTION REQUESTED:

Other: ☒ Your comments

STAFF RESPONSE:

☐ I concur. ☐ No comment.

Please note other comments below:

*It would have to be a
nat'l. emergency for this
week, which is
scheduled fully — if early
next wk. is possible, let
me know — TK*

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THE WHITE HOUSE
WASHINGTON

3/19/77

NOTE TO THE PRESIDENT

FROM: Jack Watson

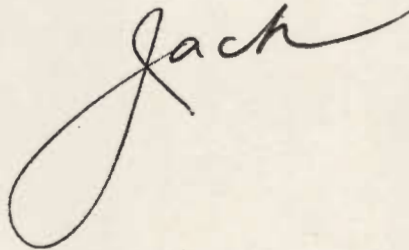
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THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

377 MAR 19 1977 PM ACTION

March 18, 1977

MEMORANDUM FOR THE PRESIDENT

THROUGH JACK WATSON

RE: US/UK Civil Aviation Negotiations

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March 18, 1977

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Alan S. Boyd

3/28

file 3/22

Trudy:

This folder contained
some general public

ltrs. - Sent to Central Hqs

on 3/22

Barbara

Susan Clough

~~Share Sheet~~

No five to read J

Julia: 3/22/77

PR5-2

6/5

THE WHITE HOUSE
WASHINGTON

March 22, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Frank Moore

Re: Background Material on
Cargo Preference

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	X	REIZENSTAT
		JORDAN
		LIPSHUTZ
	X	MOORE
		POWELL
		WATSON

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		WELLS
		VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

J

March 21, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *SE*

SUBJECT:

Background Material on
Cargo Preference

I have been holding a memo summarizing the cargo preference issue. By tomorrow a memo from the Secretary of Commerce reflecting the views of the EPG on the issue will also be in hand. I will forward these together at that time. *OK*

I recommend postponing a final decision on cargo preference pending some consultation (perhaps by you directly) with Senators Long, Magnuson and Hollings and with Congressman Murphy. The Senators have written to you (letter attached) requesting this consultation. Congressman Murphy has postponed hearings on cargo preference indefinitely to give us time to consider our position carefully. If you are inclined to agree with your Cabinet and to oppose cargo preference, I believe that we should proceed very deliberately in order to maintain our good relations with Congress and organized labor.

**Electrostatic Copy Made
for Preservation Purposes**

WARREN G. MAGNUSON, WASH., CHAIRMAN
JOHN O. PASTORE, R.I.
VANCE HARTKE, IND.
PHILIP A. HART, MICH.
HOWARD W. CANNON, NEV.
RUSSELL B. LONG, LA.
FRANK E. MOSS, UTAH
ERNEST F. HOLLINGS, S.C.
DANIEL K. INOUE, HAWAII
JOHN V. TUNNEY, CALIF.
ADLAI E. STEVENSON, ILL.
WENDELL H. FORD, KY.
JOHN A. DURKIN, N.H.

JAMES B. PEARSON, KANS.
ROBERT P. GRIFFIN, MICH.
HOWARD H. BAKER, JR., TENN.
TED STEVENS, ALASKA
J. GLENN BEALL, JR., MD.
LOWELL P. WEICKER, JR., CONN.
JAMES L. BUCKLEY, N.Y.

MICHAEL PERTSCHUK, CHIEF COUNSEL
S. LYNN SUTCLIFFE, GENERAL COUNSEL
MALCOLM M. B. STERRETT, MINORITY COUNSEL

United States Senate

COMMITTEE ON COMMERCE

WASHINGTON, D.C. 20510

March 11, 1977

Honorable Jimmy Carter
President of the United States
The White House
Washington, D. C. 20500

Dear Mr. President:

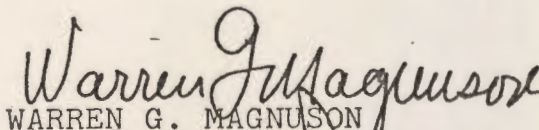
As you know, the 93rd Congress enacted legislation (H.R. 8193) intended to insure that U.S.-flag vessels carry a fair share of our oil imports. However, that measure was pocket-vetoed by President Ford. In our judgement legislation to accomplish this result is urgently needed in the interests of national security, commerce, jobs, and protection of the marine environment.

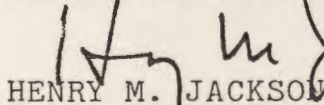
Hearings are currently being held in both the House and Senate on various proposals intended to accomplish that result.

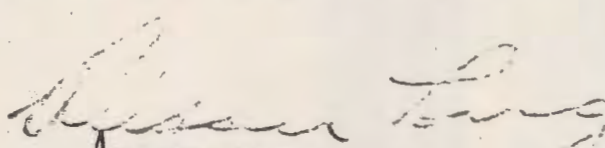
Knowing of your repeated statements in favor of a strong U.S.-flag merchant marine and your desire to develop a national cargo policy that would assure U.S. vessels a fair share of cargo, we urge that you designate as soon as possible one or more members of your Administration to work jointly with Congress to develop the best possible legislation in this area.

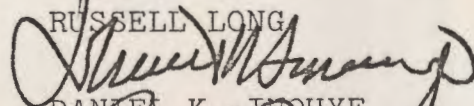
An expeditious and cooperative effort is required if the United States is to move into its third century in a posture of seapower strength rather than weakness.

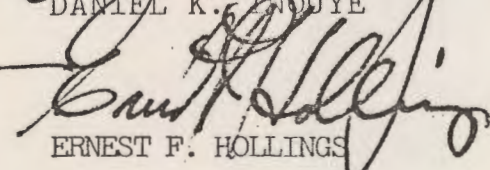
Sincerely yours,


WARREN G. MAGNUSON


HENRY M. JACKSON


RUSSELL LONG


DANIEL K. INOUE


ERNEST F. HOLLINGS